

Message Text

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ACTION EB-11

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COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 DODE-00 PA-03 USIA-15 PRS-01 INT-08

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E.O. 11652: GDS

TAGS: BDIS, ETRD, CH, US

SUBJ: US FERROUS SCRAP EXPORT TO THE PRC

REF: STATE 169905

SUMMARY. USLO OFFICER DISCUSSED PROBLEM OF BERTHING AND UNLOADING OF US EXPORTS OF STEEL SCRAP WITH WANG YEN, OF CHINA NATIONAL METALS AND MINERALS CORPORATION. WANG PROVIDED AN EXPLANATION OF PROBLEM ENCOUNTERED BY US FIRM COMMERCIAL METALS, AND APPEARED ANXIOUS TO AVOID ITS REPETITION. USLO BELIEVES US EXPORTERS SHOULD BE CAUTIONED ABOUT PROBLEM OF POSSIBLE CONGESTION IN CHINESE PORTS. END SUMMARY.

1. ON SEPTEMBER 4 USLO OFFICER MET WITH WANG YEN (3769/7526), DIRECTOR OF SECTION RESPONSIBLE FOR IMPORTS OF FERROUS METALS AT THE CHINA NATIONAL MINERALS AND METALS IMPORT AND EXPORT CORPORATION (MINMETALS), TO DISCUSS BERTHING AND UNLOADING PROBLEMS OF STEEL SCRAP (REFTEL). USLO OFFICER OUTLINED THE SITUATION AS DESCRIBED IN COMMERCIAL CONFIDENTIAL

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METALS' LETTER TO COMMERCE AND POINTED OUT THAT HIGH COST

OF PORT DELAYS IN UNLOADING STEEL SCRAP COULD CAUSE EXPORTERS TO SEEK ALTERNATE MARKETS.

2. WANG SAID MINMETALS HAS BEEN DEALING WITH COMMERCIAL METALS FOR SOME TIME, AT FIRST THROUGH ITS SWITZERLAND-BASED SUBSIDIARY AND LATER WITH THE PARENT US FIRM. AT FIRST THESE DEALS WERE ON A FLOATING PRICE BASIS, BUT THE PRESENT CONTRACT IS ON A FIXED-PRICE ARRANGMENT.

3. WANG SAID THAT THE FIRST SHIP UNDER THE PRESENT CONTRACT, LOS NINOS, WAS DISCHARGED SO RAPIDLY THAT THE CHINESE EARNED DISPATCH PAYMENT. THE SECOND SHIP, THE ALLEPPO, ARRIVED IN DAIREN ABOUT JULY 28 BUT BECAUSE OF HARBOR CONGESTION UNLOADING WAS UNABLE TO BEGIN UNTIL AUGUST 26, HE SAID. IT IS EXPECTED THAT UNLOADING WILL BE COMPLETED BY SEPTEMBER 10. THE ALLEPPO IS CARRYING 17,900 TONS OF CARGO AND, ACCORDING TO THE CONTRACT, THE DISCHARGE RATE IS 600 TONS PER DAY. THUS, WANG SAID, 30 WORKING DAYS ARE REQUIRED TO COMPLETE UNLOADING, BUT IF BAD WEATHER DAYS AND SUNDAYS ARE ADDED, IT WOULD PROBABLY REQUIRE 40 CALENDAR DAYS FOR COMPLETION. ROUGHLY SPEAKING, WANG SAID, SEPTEMBER 10 IS ABOUT 40 DAYS FROM THE TIME OF THE SHIP'S ARRIVAL AT PORT, AND UNLOADING SHOULD BE COMPLETED BY THEN. HE SAID HE IS CONFIDENT THAT, BASED ON CONTRACT TERMS, THERE SHOULD BE LITTLE OR NO DEMURRAGE. COMMERCIAL METALS, HE INDICATED, WAS WORRIED ABOUT AN EXCESSIVE DELAY AND WANTED DEMURRAGE CALCULATED ACCORDING TO DAYS THE SHIP WAS WAITING IN PORT TO BEGIN UNLOADING. MINMETALS COULD NOT AGREE TO THIS, HE SAID.

4. THE THIRD SHIP, AJAX, LEFT THE US FOR THE PRC ON ABOUT AUGUST 31, WANG SAID. HE ADDED THAT COMMERCIAL METALS WANTED ASSURANCES FROM MINMETALS THAT BERTHING PLACE WOULD BE AVAILABLE AS SOON AS THE SHIP ARRIVED AND THAT UNLOADING WOULD PROCEED IMMEDIATELY, BUT MINMETALS COULD NOT AGREE TO THIS BECAUSE BERTHING AND UNLOADING ARE ARRANGED BY THE PORT AUTHORITIES WHO ARE UNDER THE MINISTRY OF COMMUNICATIONS. HOWEVER, HE SAID, WHEN THE SHIP ARRIVES, MINMETALS WILL DO ITS BEST TO SEE THAT IT IS BERTHED AND UNLOADED AS SOON AS POSSIBLE.

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5. WANG SAID WE SHOULD ASSURE COMMERCIAL METALS THAT MINMETALS IS AS ANXIOUS AS COMMERCIAL METALS TO AVOID DEMURRAGE CHARGES AND TO EARN DISPATCH MONEY IF AT ALL POSSIBLE. BOTH BUYERS AND SELLERS LOSE WHEN THERE ARE DELAYS. HE REPEATED THAT UNDER THE CONTRACT IF THERE IS ANY DEMURRAGE AT ALL FOR UNLOADING OF THE ALLEPPO, IT WOULD BE ONLY FOR A VERY SHORT TIME. HE REITERATED THAT MINMETALS WILL DO EVERYTHING POSSIBLE TO FACILITATE EARLY BERTHING AND UNLOADING OF THE

THIRD VESSEL.

6. ASKED ABOUT PORT DELAYS IN GENERAL, WANG DENINED THAT PORT CONGESTION IS A CHRONIC PROBLEM AND SAID THAT THE SITUATION VARIES FROM TIME TO TIME. IN REPLY TO ANOTHER QUESTION, HE SAID HE WAS CERTAIN THAT STIPULATIONS PERTAINING TO UNLOADING AND TO DEMURRAGE COSTS ARE STATED VERY CLEARLY IN PRC STEEL SCRAP CONTRACTS AND HE DID NOT THINK THERE IS ROOM FOR MISUNDERSTANDING IN THIS RESPECT. HE FURTHER EXPLAINED THAT MINMETALS PREFERS TO IMPORT STEEL SCRAP ON A C&F BASIS, THAT IT IS "INCONVENIENT" FOR HIS CORPORATION TO HAVE THE CHINA NATIONAL CHARTERING CORPORATION CHARTER VESSELS FOR THIS PURPOSE.

7. AT CONCLUSION OF MEETING, USLO OFFICER SAID HE WOULD CONVEY WANG'S EXPLANATION OF ALLOEPPPO PROBLEM TO WASHINGTON, AND THAT ANY STEPS BY MINMETALS TO FACILITATE BERTHING AND UNLOADING OF AJAX WOULD BE HELPFUL TO COMMERCIAL METALS, WHICH HAS BURDEN OF COSTLY TIME CHARTERS. USLO OFFICER ADDED THAT HE CONSIDERED IT IMPORTANT TO AVOID MISUNDERSTANDINGS BETWEEN US EXPORTERS OF STEEL SCRAP AND MINMETALS.

8. COMMENT: WHILE WE DO NOT HAVE THE TECHNICAL KNOWLEDGE TO ASSESS THE VALIDITY OF WANG'S EXPLANATION WITH RESPECT TO THE ALLEPPO, WE BELIEVE HE GOT THE POINT THAT WE ARE CONCERNED ABOUT SUCH PROBLEMS AND HE APPEARED QUITE ANXIOUS TO AMELIORATE THE SITUATION. WE SUSPECT THAT THE THIRD SHIP WILL RECEIVE RAPID HANDLING WHEN IT ARRIVES IN THE PRC. WANG'S CONCERN MAY ALSO STEM FROM THE CONTINUING PRC INTEREST IN IMPORTING SCRAP FROM THE US DURING THIS PERIOD OF A TIGHT INTERNATIONAL MARKET. HE INFORMED US THAT MINMETALS HAD RECENTLY TALKED TO THREE US STEEL SCRAP FIRMS: SCHIAVONE-CHASE CORPORATION (PEKING 687), STEELMET, AND SOUTHERN
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SCRAP, BUT HE PROVIDED NO DETAILS.

9. WE DO NOT HAVE ADEQUATE INFORMATION TO COMMENT ON LETTER WHICH COMMERCE RECEIVED ABOUT THE COMMERCIAL METALS PROBLEM, BUT WE THINK THAT US EXPORTERS SHOULD BE CAUTIONED ABOUT POSSIBLE PORT CONGESTION IN CHINA. USLO OFFICERS, IN RECENT TRIPS FOR EXAMPLE, WERE TOLD OF BERTHING DELAYS AT HSINKANG OF FROM 4 OR 5 DAYS TO 2 OR 3 WEEKS AND AT SHANGHAI OF WAITS UP TO 5 OR MORE DAYS. THIS SITUATION IS NOT LIKELY TO CHANGE IN THE FORESEEABLE FUTURE, AND US SUPPLIERS WOULD DO WELL TO TAKE THIS INTO ACCOUNT IN CONTRACTUAL NEGOTIATIONS WITH THE CHINESE WHERE SHIPMENT WILL BE ON A C&F BASIS.

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